1812

1914

U. S. SECURITIES GOVERNMENT FINANCE AND RESERVE BANK ORGANIZATION

New York, December, 1914.

Federal Reserve System.

THE most important event of the past month in the business world unquestionably was the opening of the Federal Reserve Banks. The system has now taken tangible form and can be measured up against its responsibilities. The second combined statement showed reserves of approximately $270,000,000, or a little above one hundred per cent. against all demand liabilities. Only one-third of the capital that is to be called up has been paid in, and the first installment of deposits. When all payments required within the first six months have been completed, the total will probably be above $300,000,000. With $250,000,000 of deposits and $50,000,000 of capital paid in, these banks will have received $300,000,000 of reserve money, which would permit them to make rediscounts to the amount of $350,000,000, and still have a reserve of fifty per cent., provided the rediscounts did not involve a loss of gold. While $350,000,000 does not bulk very large when compared with the liabilities of all the member banks, which the reserve banks are organized to protect, it is a very handsome sum to have available for rediscounting. The rediscounts and bills payable of all the national banks at the date of the last statement aggregated about $150,000,000.

The effectiveness of the reserve banks will be shown in their ability to promptly concentrate support at any point of weakness before alarm becomes general, and confidence is also inspired by the fact that in any real emergency their ability to rediscount may be used practically without limit, as the Federal Reserve Board has the power to suspend all reserve requirements.

Of course these extraordinary powers are never to be used to effect a general inflation of bank credit; they are a safeguard to prevent a ruinous contraction of bank credit. If, for instance, there was pressure upon the member banks for the liquidation of deposits, the reserve banks might grant an equal amount of rediscounts without increasing the volume of bank credit.

The reserve banks have another resource which has not as yet been placed at their disposal, and that is the Treasury deposits. The Secretary of the Treasury may deposit all monies of the general fund with them, and make all government payments by drawing on them. At the present time the amount of lawful money in the general fund is about $150,000,000.

Reserves Released in Member Banks.

Perhaps the most notable feature of the first statement is the showing of reserves released in the member banks, New York coming to the front with a surplus of $137,000,000. It is, of course, true, that with the rediscounting privileges now available, it will be unnecessary for the member banks to carry as large reserves as formerly, but it is obvious that herein lies provision for credit expansion on a very large scale. These reserves have been released for use, in the discretion of the bankers, and it may be assumed that ultimately they will come into use, but it is clearly desirable that they shall not be used freely at present. Such a degree of expansion—suddenly made—would be abnormal and unhealthy at any time, and in the early operations of the reserve banks might bring embarrassment to them. While these surplus reserves are being absorbed the reserve banks will have little control over the money market, and in the present unsettled state of the foreign exchanges it is conceivable that considerable mischief could be done before they obtained effectual control. If, for example, these surplus reserves were used in such a manner as to create balances against us in the foreign exchanges, the effect would be to cause demands upon the reserve banks for gold for export. This might come about from a general relaxation in the money market without being directly traceable or foreseen.

The credit situation in the United States is enormously improved by having the reserve banks in operation, but the gold resources of these banks are not yet so large that they can view adverse foreign balances with indifference. We are still weak in our international relations by reason of the fact that so large a part of our gold stock is scattered in 25,000 banks and in circulation, while demands for export in the future as heretofore will fall on New York.

It would be highly desirable, if practicable, that these released reserves of the member banks were turned over to the reserve banks to be held and used by them for the support of the general situation until the financial conditions superinduced by the war had become more settled. Since this is impracticable there remains nothing to say except that it is the duty of every banker, whether in the new system or out of it, to co-operate with that system and do his part to make its policies effective.

Reserve Board Policies.

In view of the release of member bank reserves, in reliance upon the services of the reserve banks, and of the expansion of credits thus made possible, it must be recognized that the responsibilities of the reserve system are very great, and that prudence will dictate a very restricted use of its resources at present. Fortunately, the general business situation at this time offers no stimulus to speculation or even to investment except on a conservative basis.

The policies promulgated by the Federal Reserve Board are cautious and tentative. Complaints have been made that the opening discount rates were too high, but the reasons why these banks should not take on paper freely at this time are indicated above. The effect of the new system upon discount rates will come by giving greater mobility to credit and by a more effective utilization of the resources of the member banks rather than by the direct influence of their own discounts.

The regulations defining the classes of paper eligible for rediscount are liberal as to the form of the paper but restrict accommodations closely to paper springing from current trade and representing commodities moving to market.

If the new system had been ready for operation a few months earlier, it would have rendered valuable services to the country during the crisis that followed upon the outbreak of the war, and would have started off with a period of good earnings. As it is, for some of the institutions at least, earnings are likely to be light for a time, but as the banks are not established primarily to make money, this is not a serious matter.

New York Cotton Exchange.

An important step in the rehabilitation of the machinery of trade has been the reopening of the New York Cotton Exchange. When it closed a tangle of outstanding contracts was left over which presented a serious problem. Cotton had fallen from 10½ cents per lb. to about 7½ cents, and dealers who had agreed to receive approximately 400,000 bales at the former price faced losses aggregating $6,000,000. In their behalf it was said that they had met these losses in the course of legitimate trading, as the result of a catastrophe analogous to "an act of God or a public enemy," that by the closing of the Exchange they had been deprived of its facilities in protecting themselves during the decline and that something should be done for their relief. The Exchange finally settled the matter in a large spirit of co-operation, creditable to its membership and to the New York business community, by practically assuming the losses below 9 cents per lb.

A company, known as the Cotton Trading Corporation, was organized to take over the outstanding contracts at 9 cents per lb. Then a syndicate was organized by subscription to buy this cotton from the corporation at 7½ cents per lb. This arrangement definitely fixed the loss assumed by the Trading Corporation at 1½ cents per lb., and at about $3,000,000 in the aggregate.

Settlement for this amount was made by adjustment, about one-half in notes of the Trading Corporation running three years, and one-half in cash. The cash was supplied by a loan, advanced by several New York banks, made to the Trading Corporation upon paper endorsed by leading members of the Exchange. Finally, liquidation of the entire $3,000,000 was provided for by means of a tax on new business executed upon the Exchange. If this tax does not liquidate the bank loan within three years the endorsers will pay what remains of it.

In this manner the old contracts were cleared away, the losses due to an extraordinary situation were assumed in large part by the trade and the Exchange reopened without a single failure.

The Exchange has now been open two weeks to unrestricted trading and prices have been fairly steady. They were at first affected unfavorably by selling for members of the cotton syndicate, some of whom preferred to at once close out the cotton received under their subscriptions. The main feature thus far, however, has been the unimportance of the speculative, or investment, demand. The cotton crop of the United States cannot be taken from the producers promptly without buyers of this class. There has been fair buying by domestic consumers and for export, but the increasing evidence of a large crop, together with the uncertainty that exists as to foreign requirements, makes investors very cautious. Some disappointment is voiced over the result of opening, but the Exchange itself can do no more than afford the best possible facilities for free trading. If there is a lack of confidence in the future for cotton, the market is bound to reflect it.

The bankers' pool of $135,000,000 is reported fully subscribed. The terms upon which these funds will be provided were explained in this circular last month. While the purpose was a laudable one, and it may be well to pledge this definite support to the bankers of the south for use if they want it, it is a question whether this pool, like some of the others, has not fallen behind the procession of events. With the Cotton Exchanges open, and an enormous release of credit resources in the banks through the inauguration of the new reserve system, great facilities are now at the service of people who may want to buy cotton. This was not the case when the pool was first projected. What is most wanted in the market now is faith in the future of the staple.

International Trade.

Exchange transactions between New York and London are on a normal basis, but the other exchanges are still very much confused. The United States makes a rather better showing in foreign trade than any other country. The foreign trade of Italy, for instance, in September, was about one-half that of September, 1913, while the exports of Great Britain in October were 38.6 per cent. below those of October, 1913. The exports of the United States in October fell 28 per cent. below those of 1914 as the result of the poor demand for cotton, but United States imports for the same month presented a surprise, being about $5,000,000 above the imports of October, 1913.

Exports from the port of New York have been running high and bread-stuffs have been making a large showing, but these gains are far short of making up for the losses in cotton. The exports of cotton in October, 1913, amounted to $107,375,197, and in October, 1914, to $20,420,043. The gain in bread-stuffs over a year ago was about $25,000,000. The net balance of all exports over all imports in October, 1914, was $57,305,074, and in the same month last year, $138,912,162. The latter, however, were extraordinary figures, much above an average month, while in October, 1914, the cotton movement was scarcely under way. November will make a better showing and no doubt cotton will go out more freely in the months to come. Wheat is moving as fast as vessel room can be obtained, and the movement will continue. Miscellaneous exports, particularly of war supplies, probably will be much larger, as buying apparently is increasing.

The principal changes in our foreign trade, by countries, in October, as compared with the same month of a year ago, appear in the following statement:

MONTH OF OCTOBER.

Imports from	1913	1914
Argentina	$1,244,372	$5,870,171
Australia	807,396	1,486,313
Belgium	2,079,223	658,719
Brazil	9,514,403	8,885,954
Canada	15,040,458	15,288,830
China	2,932,793	2,986,267
Cuba	5,072,478	7,861,059
France	9,503,777	7,802,719
Germany	14,815,675	6,168,058
India, British	4,620,277	2,366,530
Italy	4,345,846	5,627,310
Japan	8,632,366	9,723,908
Mexico	6,361,129	6,957,008
Netherlands	1,781,248	2,942,450
Russia	1,764,874	127,888
United Kingdom	20,243,649	25,057,590
Exports to		
Argentina	$5,168,450	$1,683,093
Australia	4,823,032	4,770,317
Belgium	6,420,833	446,650
Brazil	3,866,191	1,362,246
Canada	33,102,217	23,586,256
China	2,010,092	994,414
Cuba	6,933,471	6,937,986
France	26,194,861	17,037,469
Germany	48,433,396	17,508
India, British	1,527,753	1,388,434
Italy	7,463,491	11,119,476
Japan	7,808,412	4,784,852
Mexico	3,768,616	3,001,144
Netherlands	6,974,291	3,975,057
Russia	2,407,738	3,980,160
United Kingdom	70,991,350	72,474,221

Further light is thrown on the changes in the trade by the following classification of commodities:

IMPORTS.

Groups—	Month of October 1913.	1914.
Crude materials for use in manufacturing	$39,812,858	$43,956,244
Foodstuffs in crude condition and food animals	22,875,540	21,426,035
Foodstuffs partly or wholly manufactured	12,996,192	18,274,948
Mfs. for further use in manufacturing	22,395,424	20,949,595
Mfs. ready for consumption	33,677,864	32,254,282
Miscellaneous	1,191,424	1,219,416
Total imports	$132,949,302	$138,080,520

EXPORTS.

	Month of October 1913.	1914.
Crude materials for use in manufacturing	$135,239,556	$32,989,050
Foodstuffs in crude condition and food animals	11,764,519	36,224,327
Foodstuffs partly or wholly manufactured	29,775,473	37,411,532
Mfs. for further use in manufacturing.	32,678,284	28,571,130
Mfs. ready for consumption	68,824,465	53,589,172
Miscellaneous	721,137	2,244,165
Total domestic exports	$269,003,434	$191,029,376
Foreign mdse. exported	2,858,030	4,375,254
Total exports	$271,861,464	$195,404,630

The South American situation may be judged by the showing of our exports to Argentina and Brazil. Both of these countries have been using European capital on a large scale and new supplies have been cut off. Canada is suffering from the same cause. Brazil is also affected by the low prices for coffee and rubber.

It is a subject for congratulations that, notwithstanding the decline in our exports the foreign exchange situation is as favorable to us as it is. One factor in it is the practical elimination of the item of expenditures by American tourists abroad, which will be of small proportions while the war lasts.

The total exports of gold from the United States for ten months ending with October 31st, 1914, were $207,998,750, and the net exports were $162,121,938.

General Business Situation.

There has been little change in the general trade situation during the last month. Bank clearings and railway earnings show that trade is light as compared with a year ago, but broadly speaking the exchanges for current consumption are fairly well maintained.

The grain and meat producing sections are very prosperous, although they have had a bad scare over the outbreak of the foot and mouth disease, the worst of all scourges of live stock. The origin of the disease in this country was traced to an importation of hides from South America, and its wide distribution is said to have been due to infected hog cholera serum. By energetic measures on the part of the government it is believed to be under control, and if this proves to be so the department of agriculture by this one service will have paid for itself for many years.

The big losses in the business world are in construction and transportation lines. Building operations are light, equipment orders, except in some lines affected by the war, are few, and the great railway interest is making every effort to keep down expenditures. The result is seen in the steel industry, operating at possibly 35 per cent. of its capacity, and in cement, lumber, electrical equipment, heavy machinery, and all railway supplies. The country is marking time in its constructive work.

The railways are raising passenger fares between important terminals, and also upon mileage books, on the strength of intimations that this would be approved by the Interstate Commerce Commission, also making sharp economies in passenger train service. Terminal charges and free services are receiving careful attention. These measures, however, do not go far in dealing with the railway situation, which is affected fundamentally by the fact that the average wage of all railway employes in the United States has been pushed up 28.91 per cent. since 1906, while other operating expenses have risen in about the same percentage and the growth of income has not been sufficient to meet these costs. The average freight rate per ton mile in 1913 was 2.53 per cent. lower than in 1906.

The cotton cloth business is dull, with prices, after having recovered a little, not quite firm. In fact the market for cotton goods has the same symp-

toms as the market for raw cotton, indicating on the part of buyers a feeling of uncertainty as to future prices.

The woolen goods industry is in better condition, although concerned about the embargo on wool declared by Great Britain. American manufacturers will give more attention to the direct importation of South American wools than ever before. All kinds of wools are in demand and stronger. The tariff reductions of a year ago undoubtedly have affected the textile industries in some degree. The value of foreign dry goods imported at New York and actually put on the market since January 1st, 1914, is $154,781,909, which compares with $136,633,610 in the same period of 1913.

Vessels carrying the American flag are in great demand and commanding high pay, being particularly wanted for the trade to German ports, taking out cotton and bringing in dye-stuffs, potash and sugar-beet seed.

War orders are an increasing factor, with their influence broadening over the country and indirectly affecting many interests. Some very keen observers are of the opinion that this business will grow in importance and furnish the impetus needed to start a general revival of industrial activity.

The Stock Exchange and Finance.

The Stock Exchange has been opened for restricted trading in bonds, and but for the fear of foreign realizing, trading in stocks would be speedily resumed. As a fact trading through the Exchange Clearing House has now reached important proportions, with many leading stocks selling above the last quotations of July 30th. The trades outstanding when the Exchange closed have been closed up. The call loans on stocks, by reason of advancing prices and easy money, are no longer an unsatisfactory feature of the banking situation.

Commercial paper is again freely taken, but the offerings are light. The market for short-time money promises to work into a condition of great ease, but the terrible destruction of capital in the world makes the future look very unpromising for the railways and all borrowers upon long time obligations.

In brief, although still suffering from the derangement brought on by the war, the business of the country is on a safe basis, and in the way of being better. The machinery of our domestic exchanges is nearly in order again, and although it is running slow, it is in condition to give service. Our banking system has become more efficient than ever before. There is no reason to fear another sudden contraction of credit facilities. Rates will fluctuate, but credit will be obtainable by those entitled to it. The only incalculable factor in the financial situation is regarding the possible demands upon the country for gold, and upon this there is a more confident feeling than heretofore. Our offsets will be large, the Federal Reserve System will afford a more effective organization for dealing with such demands than we have had in the past, and the warring countries have now demonstrated their ability to raise great sums at home at very moderate rates of interest.

England's War Expenditures.

The British Chancellor of the Exchequer, in a statement to the House of Commons, has estimated the cost of the war for one year at $2,250,000,000. The total savings, or gains, of the English people have been estimated in recent years at about $2,000,000,000 per year. Leaving war expenditures out of the account, it is possible for their savings to be even greater during the war than in times of peace, as all classes will practice economy, and although the war expenditures are non-productive, there will be profits on them and they will contribute for the time being to the support of the population. It may be, therefore, that English financiers are not mistaken in calculating that England's war expenditures will be offset by the country's production of new capital. But, even so, it is certain that all savings will not be subscribed to the war loans, and it is also to be considered that England's allies are spending on a similar scale, and that they will be absorbing more or less capital in London, either by direct loans or by selling railway and other securities listed in London. It has been taken for granted therefore that England would want to reduce its holdings of foreign securities, and that it would sell in New York, which is about the only market that could make considerable purchases. And it has seemed even more certain that the income accruing to England from investments abroad would be brought home for use instead of being invested abroad as usual.

It is estimated that one-fourth of England's wealth, or about $20,000,000,000, is invested abroad, and if this pays an average of five per cent., the earnings just about equal the sum, $1,000,000,000, which England is estimated to have been annually investing in other lands. Obviously, the countries that have been regularly employing British capital on a large scale, and these include the United States, are very much interested in knowing how these enormous demands upon the London market will react upon them.

Commodities Wanted Rather than Gold.

On the face of the situation, it looks as though an extensive shifting of securities and of gold would have to occur. But under all such disturbing conditions, the business world tends to find its equilibrium, and usually comes nearer doing so than appears possible on the first view. There are factors in this situation which do not immediately appear. In the first place an important part of these enormous expenditures must be made in neutral countries, and particularly the United States; and even where the expenditures are not directly made abroad, they will affect foreign trade in a way tending to restore the balance.

Again, gold is of no use in carrying on a great war, except as a means of paying the bills, and it is not wanted for that purpose at home. Gold is wanted for payments away from home where nothing else will answer. There is always a scramble for gold in preparation for war, but it would be something new in the world for nations to go on accumulating gold while engaged in war. They

accumulate their hoards in peace and disburse them in war. If England should prove to be an exception to this rule, it will be because of her fixed income from investments abroad, but the other countries can hardly avoid losing gold, which, if it does not come direct to the United States, will go, at least in part, to London for New York's credit. Russia is now a heavy buyer in the United States and her purchases will increase, for her large trade with Germany is cut off. Already the Imperial Bank of Russia is making heavy shipments of gold to the Bank of England, some $50,000,000 since the war began, and the former still holds approximately $750,000,000. It is evident, therefore, that the Bank of England does not have to rely upon the United States to replenish its gold reserves, and the United States does not necessarily have to liquidate its London debts with gold.

Moreover, there is a limit to the amount of gold that a country can advantageously use in its reserves. Beyond a reasonable proportion to liabilities, more is not worth having at what it costs; short-time interest bearing paper is likely to be preferred. Even now England is more interested in increasing her foreign trade than in increasing her gold reserves, which have reached an unprecedented amount. If she can pay for the commodities she must have with exports of her own commodities, the latter will answer the purpose of gold and give employment to her people besides. It may be expected, therefore, that the English government and bankers will co-operate to avoid any serious dislocation of the exchanges, or other disturbance likely to affect general trade.

How War Loans are Distributed.

The immense war loans have been distributed more readily than was supposed to be possible, and this is due not only to the great resources of the modern states, but to the high development that has been reached in the organization and use of credit. When it is remembered that the debt of Great Britain at the close of the Napoleonic wars was considerably greater than it is now, while its population was only about 40 per cent. of what it is now, and its wealth and productive capacity incomparably less than what they are now, it is not so remarkable that its people should readily pledge a loan of even $2,000,000,000. The wealth of Germany is estimated at about $75,000,000,000, against which the loans that have been offered do not appear very formidable while the war spirit is on.

The service of the modern credit organization enables great payments to be made within a short time while spreading reimbursements over a very long time, and this allows of loan subscriptions without forcing the sale of property. If the citizen had to sacrifice his property by sale in order to buy government bonds, he might not do it, but if he can use his credit to buy a government bond and the interest on the bond will carry his own indebtedness, and the government in turn can use the bank credit for its disbursements, the process of financing a war is reduced to its easiest terms.

It is probable that when these European countries are through floating war loans their banks will not be in very liquid condition, but in each country the government is behind the situation, and the banks are provided with currency to meet any needs. Furthermore, the private fortunes and incomes of the people are behind the bank credit. The war will not go on forever and when it is over the recuperative powers of all these countries, with modern machinery, will be very great—much greater than their productive powers a generation ago.

Under these conditions it does not necessarily follow that people who own good American securities must sell them in order to subscribe for government issues; and while they would naturally prefer to sell at a fair figure, it is doubtful if they will sacrifice them, at least until credit conditions are more strained than they are now.

The British Treasury Representatives.

Early in September, when our foreign trade was badly demoralized by the war, and some alarm was felt over the large total of obligations falling due abroad in the next few months, the Secretary of the Treasury indicated to the British Ambassador that he thought it would be desirable to have a representative of the British Treasury, and if practicable of the London banks, come to this country for a conference upon the exchange situation. This suggestion was communicated to London and the British Treasury sent Sir George Paish, the well known English economist, and Mr. B. P. Blackett, an official of the Treasury. Their errand was to learn what the authorities of this country had to propose, and they evinced a cordial desire to meet the wishes of the United States and to co-operate in any practicable effort to stabilize the exchanges.

They remained in this country about six weeks, and were in frequent conferences with the Secretary of the Treasury, the Federal Reserve Board and a Committee of New York bankers called together by the Reserve Board. During their stay, however, the exchange situation underwent a decided change, as a result of the growth of exports from this country, and they left for home without any agreement having been consummated, and for the time being at least the problem was considered to have worked itself out.

Although no definite statement was made as to the object or terms of the agreement discussed, it is evident that an arrangement to relieve an abnormal situation in exchange would have to be one creating credits in the market that was at a premium. When these gentlemen arrived in the United States, sterling exchange was selling around $4.95. When it declined below the gold shipping point there was nothing left to discuss, unless it might be the hypothetical question of what to do in case the rate went back to abnormal figures. It is conceivable that this might occur in the event of heavy selling of American securities by London. Under such circumstances it might be desirable to create a credit in London which would make gold shipments unnecessary, and with the London money market in its present state of ease, and the gold reserves of the Bank of England at their present level, this should be feasible.

In the present unsettled state of all markets, nobody can foretell the shifts that may occur, but London and New York are alike interested in keeping the situation under control. It is understood that the subject will have further consideration in London, and the parties who have been in conference are confident that a plan for co-operative action can be developed if occasion for it arises.

New Rules for Calculating Reserves.

The Comptroller of the Currency, under date November 24, 1914, has announced a decision construing Section 27 of the Federal Reserve Act, relating to the extension of the Aldrich-Vreeland Act of May 30, 1908, in which he holds that so much of the Act as modified the provisions of 5191, R. S., regarding national bank reserves was not extended, and has expired by limitation. This makes it necessary for national banks to maintain reserves against United States deposits. The full text of the Comptroller's order is given below, and undoubtedly is in conformity to the law:

Washington, November 24, 1914.

IMPORTANT

To the Cashier:

In reference to the FORM FOR CALCULATING RESERVE issued November 16, 1914, you are advised that—

(1) This form is for your guidance in calculating reserve under Section 19 of the FEDERAL RESERVE ACT, as amended, which went into effect upon the opening of the Federal Reserve Banks on November 16, 1914.

(2) Section 5191 U. S. R. S. requires reserves to be held by national banks against the aggregate amount of their deposits. Section 14 of the Act of May 30, 1908, which amended this section and exempted the deposits of public moneys of the United States in designated depositaries from the reserve requirements, was REPEALED by Section 27 of the Federal Reserve Act. Therefore the national banks are now REQUIRED TO CARRY RESERVE against such deposits, and in calculating the reserve all deposits of public moneys must be included in item 4 of the aforesaid circular sent you by direction of the Secretary of the Treasury under date of November 16, 1914.

In other words, NO DEPOSITS are now exempt from reserve requirements, and the lawful reserve must also be maintained against all United States deposits, including postal savings funds, deposits of United States disbursing officers, Canal Zone and Philippine deposits, and ALL OTHER GOVERNMENT FUNDS.

(3) Section 19 of the Federal Reserve Act provides that in estimating reserve the NET BALANCE of amounts DUE TO AND FROM OTHER BANKS shall be taken as the basis for ascertaining the aggregate deposits against which reserves shall be maintained.

(4) If the amount CARRIED WITH RESERVE AGENTS exceeds the amount which the law permits to be counted as reserve with such agents, SUCH EXCESS may be counted as "due from banks" and added to the amount due "from banks other than reserve agents" as a DEDUCTION from the amount "due to banks" in calculating the reserve. This necessitates, of course, a further computation.

(5) The 5 PER CENT REDEMPTION FUND deposited by your bank with the Treasurer of the United States CANNOT BE COUNTED AS PART OF YOUR LAWFUL RESERVE. (Section 20, Federal Reserve Act.)

(6) NATIONAL BANK NOTES are NOT to be treated as an offset, and are not to be taken into consideration in any way in the computation of your reserve.

Respectfully,

JNO. SKELTON WILLIAMS,
Comptroller.

No Moratorium in Ecuador.

In the November number of the Bulletin, announcement was made that Ecuador was one of the countries in which moratoria had been declared. We are in receipt of information that this statement was inaccurate, and we take pleasure in making this correction.

Official Orders, Regulations and Notices Issued by the Federal Reserve Board.

The following official documents of general interest have been issued by the Federal Reserve Board in Washington since the publication of our last Bulletin:

Call for Payment.

Notice of call for payment of first installment of subscription to capital stock of the Federal Reserve Bank of Cleveland.

TO MEMBER BANKS, DISTRICT NO. 4:

In accordance with the provisions of Section 2 of the Act approved December 23, 1913, and known as the Federal Reserve Act, the Federal Reserve Board has, by resolution duly offered and adopted, fixed November 2, 1914, as the date of payment of the first installment of all subscriptions to the capital stock of the Federal Reserve Bank of your district.

You are accordingly hereby notified that remittance should be made to the Federal Reserve Bank of ———— at ————, of a sum in gold equal to one-sixth of the total amount of capital stock allotted to you by the Reserve Bank Organization Committee, such remittance to be made on or before the date above specified.

Under the terms of Section 2 of the Federal Reserve Act, the second installment of one-sixth of your subscription must be paid within three months from date of this call (November 2, 1914), and the third installment of one-sixth of your subscription must be paid within six months from said date. The remainder of your subscription, or any part thereof, shall be subject to call when deemed necessary by the Federal Reserve Board.

Remittance must be made in gold or gold certificates. If checks or drafts on other banks are used, arrangements should first be made with the bank on which such drafts are drawn to make payment in gold or gold certificates, and the Federal Reserve Bank to which such checks or drafts are sent can receive same only for collection.

You will be duly notified when the Federal Reserve Bank of your district is open for business and the new reserve requirements provided for in Section 19 of the Federal Reserve Act have become effective.

THE FEDERAL RESERVE BOARD,
By CHARLES S. HAMLIN, *Governor.*
H. PARKER WILLIS, *Secretary.*

RECEIPT FOR NOTICE OF CALL.

(This receipt should be filled out, detached, and returned promptly in the inclosed envelope, which requires no postage.)

Receipt is hereby acknowledged of notice of the call by the Federal Reserve Board for payment of the first installment of this bank's subscription to the capital stock of the Federal Reserve Bank of Cleveland.

....

By.., *Cashier.*

Notice of First Assessment on Federal Reserve Banks.

Nov. 3, 1914.

As indicated in these pages last Saturday the Federal Reserve Banks have been called upon for their first contribution to the support of the Federal Reserve Board. The following announcement was made by the Board in this connection:

"The secretary of the Federal Reserve Board to-day sent to all Federal Reserve Banks copies of a resolution levying an assessment of four-tenths of one per cent. against the several Federal Reserve Banks for the purpose of defraying the estimated total expenses in connection with the work of the Board. The assessment includes an esti-

mated charge for the preparation of Federal Reserve Notes and dies therefor of over $200,000. This item of cost will be very much less after the system has opened and the Federal Reserve Banks have been placed in operation. The actual cost of maintaining the Board cannot be figured with any degree of exactness owing to the circumstance that the number and extent of the Board's staff has yet to be determined. The first assessment is, therefore, based upon rough estimates of probable cost.

"Federal Reserve Banks are requested to make remittance of one-third of the amount of their assessment immediately, a second one-third within thirty days, and the third one-third within sixty days from date. The basis of estimate is the capital stock allotted to applying member banks figured at its full face value or about $110,000,000 for the whole system. The actual assessment is intended to cover the outlay during the first half year."

The Official Resolution Making Assessment.

RESOLUTION NOV. 2, 1914.

First Semi-annual Assessment on Federal Reserve Banks to Pay Expenses of Federal Reserve Board.

Whereas, Under Section 10 of the Act approved December 23, 1913, and known as the Federal Reserve Act, the Federal Reserve Board is empowered to levy semi-annually upon the Federal Reserve Banks in proportion to their capital stock and surplus, an assessment sufficient to pay its estimated expenses including the salaries of its members, assistants, attorneys, experts and employees for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year, and

Whereas, Under Section 16 of said Act, said assessment shall include a sufficient amount to cover expenses incurred in connection with the issue and redemption of Federal Reserve Notes provided for in said Section, including cost of plates and dies to be engraved, the distinctive paper used and the cost of printing or engraving such notes, and

Whereas, It appears from estimates submitted and considered that it is necessary that a fund equal to four-tenths of one per cent. of the capital stock of the Federal Reserve Banks be created for the purposes hereinbefore described. Now, therefore, be it

Resolved, That pursuant to the authority vested in it by law, the Federal Reserve Board hereby levies an assessment upon the several Federal Reserve Banks of an amount equal to four-tenths of one per cent. of the capital stock of such banks, and the Secretary to the Board is hereby authorized to collect from said banks such assessment and execute in the name of this Board a receipt for payments made. Such assessment may be collected in three installments of one-third each; the first installment to be paid upon notice (* * * *) of the Secretary to such banks, the second installment within thirty days and the third installment within sixty days from said notice.

The foregoing is a true and correct copy of resolution duly offered and adopted by the Federal Reserve Board at a meeting held on the second day of November, 1914.

FEDERAL RESERVE BOARD,

By F. A. DELANO, *Acting Governor.*

[SEAL]

Attest:

H. PARKER WILLIS, *Secretary.*

Stock Subscriptions of Member Banks.

Circular No. 12.

WASHINGTON, November 6, 1914.

Section 2 of the Federal Reserve Act requires all National banks to signify within 60 days after the passage of the act whether or not such banks intend to become members of the Federal Reserve System, and also requires those banks which accept the provisions of the act to subscribe to an amount equal to 6 per cent. of the unimpaired capital and surplus of such banks within 30 days after notice from the organization committee.

In allotting the stock to banks the organization committee adopted as a basis of allottment the capital and surplus of the applying bank at the time its application was filed. Accordingly the transcript of the stock register forwarded to you to enable you to open your stock ledger shows the amount of capital stock of your bank allotted to the various member banks by the organization committee on the basis described.

Section 5 of the Federal Reserve Act reads as follows:

The capital stock of each Federal Reserve Bank shall be divided into shares of $100 each. The outstanding capital stock shall be increased from time to time as member banks increase their capital stock and surplus or as additional banks become members, and may be decreased as member banks reduce their capital stock or surplus or cease to be members. Shares of the capital stock of Federal Reserve Banks owned by member banks shall not be transferred or hypothecated. When a member bank increases its capital stock or surplus, it shall thereupon subscribe for an additional amount of capital stock of the Federal Reserve Bank of its district equal to six per centum of the said increase, one-half of said subscription to be paid in the manner hereinbefore provided for original subscription, and one-half subject to call of the Federal Reserve Board. A bank applying for stock in a Federal Reserve Bank at any time after the organization thereof must subscribe for an amount of the capital stock of the Federal Reserve Bank equal to six per centum of the paid-up capital stock and surplus of said applicant bank, paying therefor its par value plus one-half of one per centum a month from the period of the last dividend. When the capital stock of any Federal Reserve Bank shall have been increased either on account of the increase of capital stock of member banks or on account of the increase in the number of member banks, the board of directors shall cause to be executed a certificate to the Comptroller of the Currency showing the increase in capital stock, the amount paid in, and by whom paid. When a member bank reduces its capital stock it shall surrender a proportionate amount of its holdings in the capital of said Federal Reserve Bank, and when a member bank voluntarily liquidates it shall surrender all of its holdings of the capital stock of said Federal Reserve Bank and be released from its stock subscription not previously called. In either case the shares surrendered shall be cancelled and the member bank shall receive in payment therefor, under regulations to be prescribed by the Federal Reserve Board, a sum equal to its cash-paid subscriptions on the shares surrendered and one-half of one per centum a month from the period of the last dividend, not to exceed the book value thereof, less any liability of such member bank to the Federal Reserve Bank.

In order that your records may show the original subscription of all applying banks, your stock ledger should contain the amount allotted to each bank by the organization committee. The increase or decrease of capital stock of any member bank should likewise appear on your stock ledger as a separate item.

Your attention is called to the note on the back of the application for stock in the Federal Reserve Banks for use by member banks, which reads as follows:

If 6 per cent. of the capital and surplus shown amounts to a sum not divisible by 100, any excess or fractional part of $100 will entitle the applying bank to one additional share of stock. Accordingly, in filling out the subscription on the reverse side of this form, the sum representing 6 per cent. of the capital and surplus should be divided by 100 in order to obtain the number of shares to be applied for, and if an excess of less than $100 remains, one additional share should be added to the application and included in the subscription of stock to be paid for at par in accordance with the provisions of the Federal Reserve Act.

From this you will observe that if 6 per cent. of the capital and surplus of any applying bank amounts to a sum not divisible by 100, any excess or fractional part of $100 would entitle the applying bank to one additional share of stock. Accordingly it may happen that a bank has already been allotted a share of stock for a fractional part of $100. In such case, if the applying bank increases its capital stock its total allotment should be for an amount

equal to 6 per cent. of its total capital and surplus, including the increase. Therefore, in order to ascertain the amount of new stock to be issued such bank it will be necessary to determine to what amount the bank is entitled in toto and then to deduct the number of shares of stock previously allotted.

Forms for use by banks applying for additional stock will be furnished to the several Federal Reserve Banks or to any applying bank, and these applications when properly filled out should be sent first to the Federal Reserve Bank of the appropriate district and by the officers of such reserve bank to the Federal Reserve Board for approval.

Pending the adoption of these forms by the Federal Reserve Board all Federal Reserve Banks should collect from the subscribing banks an installment equal to one-third of the stock allotted to such bank by the organization committee, and should subsequently adjust on the stock ledger of the Federal Reserve Bank the matter of any additional stock subscribed.

DECREASE IN CAPITAL STOCK.

In case of decrease of capital stock and surplus of any member bank the Federal Reserve Bank should likewise collect from the subscribing bank as its first installment an amount equal to one-third of the stock allotted to such bank by the organization committee, and should subsequently adjust with such bank any amount due on account of any decrease either in capital or surplus.

In all cases where a subscribing bank notifies the Federal Reserve Bank of increase or decrease, this notice should be transmitted to the Federal Reserve Board for its action.

It is important that the records of the Federal Reserve Board, the Federal Reserve Bank, and the Comptroller of the Currency should be in accord at all times, and to this end notice of any change in capital and surplus should be transmitted to the Federal Reserve Board when received from any member bank.

The subscribing bank should be notified by the Federal Reserve Bank of this method of adjustment whenever any increase or decrease of capital stock or surplus is called to the attention of the Federal Reserve Bank.

STATE BANK APPLICATIONS.

The same method should be adopted in dealing with State bank subscriptions. The by-laws governing conditions under which State banks may become members and a form of application for stock subscription by State banks will be furnished to all Federal Reserve Banks in due course, with full instructions. In the meantime Federal Reserve Banks should collect the first installment from those State banks which have been allotted stock by the reserve bank organization committee. All other applications for stock should be referred to the Federal Reserve Board.

H. Parker Willis, *Secretary.*

Discount Policy Outlined.

Circular No. 13.

Washington, November 10, 1914.

To all Federal Reserve Banks:

In view of the impending opening of the Federal Reserve Banks, the Federal Reserve Board deems it proper to outline in this circular, in broad general terms, the discount policy which it believes might be pursued to advantage by the Federal Reserve Banks at the outset.

While the most acute stage of the recent financial emergency appears to have passed, the conditions in other countries make it necessary that the United States should, to the utmost degree of efficiency, organize and make available its own resources in order that it may provide for its own needs and replace the facilities suddenly destroyed by the closing of so many of the accustomed channels of credit and trade.

The directors and governors of the Federal Reserve Banks at a conference in Washington on October 20 and 21 recommended that the banks be opened without attempting at the outset to perform all the functions and duties contemplated in the act, but that they be prepared to accept deposits of reserves payable in lawful money, to discount bills of exchange and commercial paper, and to accept the deposit (after the reserve payments had been made) of checks drawn by member banks on any Federal Reserve Bank or member banks in the reserve and central reserve cities within their respective districts. It was the opinion of the conference that arrangements for the exercise of the additional powers granted by the act to the Federal Reserve Banks be completed as rapidly as the establishment of safe and efficient organizations would permit. The Federal Reserve Board is in accord with these suggestions.

It should be borne in mind that, although our exports are showing a gratifying increase, there is still a large cash balance due to European countries for which gold may be demanded, and that a large quantity of American securities held abroad may be returned to the United States; while on the other hand more than $300,000,000 of emergency currency must be gradually retired. No one can estimate the duration of the war or predict what will be the financial and commercial conditions when peace shall be restored. Our own industrial development has been greatly facilitated by foreign capital, and we have been accustomed to borrow large sums annually in Europe and to sell American securities there, which attracted foreigners because of their higher rate of return as compared with European investments. It is probable that at the end of the war interest rates in Europe will be higher than they have been in the past and greater investment returns will be yielded. The tremendous destruction of property and waste of capital will not only check the flow of European savings to the United States, but may dispose foreign investors to return us the securities they now hold. Lower money rates in this country would be likely to accentuate this tendency, while, on the other hand, higher interest rates and larger investment returns on our side would check it.

The function of the Federal Reserve Banks is, therefore, of a twofold character. They should extend credit facilities, particularly where the abnormal conditions now prevailing have created emergencies demanding prompt accommodation; and, on the other hand, they must protect the gold holdings of this country in order that such holdings may remain adequate to meet demands that may be made upon them. While credit facilities should be liberally extended in some parts of the country, it would appear advisable to proceed with caution in districts not in need of immediate relief and to await the effect of the release of reserves and of the changes which the credit mechanism of the country is about to experience before establishing a definite discount policy.

COMMERCIAL PAPER.

The Federal Reserve Board, under Section 13 of the Federal Reserve Act, has the right to determine or define the character of paper eligible for discount, to wit, "notes, drafts, and bills of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used or are to be used for such purposes."

Bearing in mind the requirements of the present situation, the Federal Reserve Board believes that it would be inadvisable at this time to issue regulations placing a narrow or restricted interpretation upon the section defining the character of paper eligible for discount. It has, therefore, been decided not at this time to enter upon the discussion of the question of single or double name paper, but to admit both forms of bills to rediscount with the Federal Reserve Banks.

The Federal Reserve Board proposes, however, to prescribe the following basic principles for the guidance of Federal Reserve Banks and member banks.

(*a*) No bill shall be admitted to rediscount by Federal Reserve Banks the proceeds of which have been or are to be applied to permanent investment, and regulation No. 2 has been formulated with the intention of giving effect to this principle, and is herewith inclosed.

(*b*) Maturities of discounted bills should be well distributed. It is the well-established practice of European reserve banks to invest only in obligations maturing within a short time. It is a general rule not to purchase paper having more than 90 days to run. The maturities of these notes and bills are so well distributed as to enable those banks within a short time to strengthen their hold

on the general money market by collecting at maturity or by reinvesting at a higher rate a very substantial proportion of their assets. Acting on this principle, the Federal Reserve Banks should be in position to liquidate, whenever such a course is necessary, substantially one-third of all their investments within a period of 30 days. Departure from this principle will endanger the safety of the system. It is observance of this principle that affords justification for permitting member banks to count balances with Federal Reserve Banks as the equivalent of cash reserves.

(*c*) Bills should be essentially self-liquidating.

Safety requires not only that bills[1] held by the Federal Reserve Banks should be of short and well distributed maturities, but, in addition, should be of such character that it is reasonably certain that they can be collected when they mature. They ought to be essentially "self-liquidating," or, in other words, should represent in every case some distinct step or stage in the productive or distributive process—the progression of goods from producer to consumer. The more nearly these steps approach the final consumer the smaller will be the amount involved in each transaction as represented by the bill, and the more automatically self-liquidating will be its character.

Double-name paper drawn on a purchaser against an actual sale of goods affords, from the economic point of view, prima facie evidence of the character of the transaction from which it arose. Single-name notes, now so freely used in the United States, may represent the same kind of transactions as those bearing two names. Inasmuch, however, as the single-name paper does not show on its face the character of the transaction out of which it arose—an admitted weakness of this form of paper—it is incumbent upon each Federal Reserve Bank to insist that the character of the business and the general status of the concern supplying such paper should be carefully examined in order that the discounting bank may be certain that no such single-name paper has been issued for purposes excluded by the act, such as investments of a permanent or speculative nature. Only careful inquiry on these points will render it safe and proper for a Federal Reserve Bank to consider such paper a "self-liquidating" investment at maturity.

Turning now to the question of procedure, it is not thought necessary to impose upon the banks the observance of methods which would involve needless difficulty or delay. It is therefore not deemed essential that a statement of condition be attached to each bill when sold to a Federal Reserve Bank. It is, however, thought advisable by the board to require that on and after January 15, 1915, no paper shall be discounted or purchased by Federal Reserve Banks that does not bear on its face the evidence that it is eligible for rediscount under the principles and definitions above outlined and as expressed in regulation No. 2, and that the seller of the paper has given a statement to the member bank. A rubber stamp stating, in substance—

> ELIGIBLE FOR REDISCOUNT WITH
> FEDERAL RESERVE BANKS
> UNDER REGULATIONS OF
> FEDERAL RESERVE BOARD CIRCULAR No. 13.
> CREDIT FILE NO. ——
> DISTRICT NO. ——
> (Name of Member Bank.)

is considered sufficient evidence to that effect at this time. It would be understood that the Federal Reserve Bank could at any time call for the appropriate credit file, and it may well be expected that the data thus gathered—particularly the files of more important firms and of those rediscounting in larger amounts—will be so catalogued as to furnish the nucleus of an effective credit bureau which, in turn, may eventually develop into a central credit bureau for the benefit of all the Federal Reserve Banks of the system.

For the time being, certified accountant's statements will not be required. This matter is reserved for regulation at a later date. The required statement as outlined above should be signed under oath and should contain a short general description of the character of the business, the balance sheet, and the profit and loss account. Assets should be divided into permanent or fixed investments, slow assets, and quick assets. On the liability side should be shown capital, long-term loans, and short-term loans. Short-term loans should be in proper proportion to quick assets, and the statement should contain satisfactory evidence that short-term paper is not being sold against permanent or slow investments. The statement should, furthermore, show the maximum aggregate amount up to which the concern supplying this paper expects to borrow on short credit or sale of its paper, and the concern giving the statement should obligate itself to obtain the member bank's consent before exceeding the agreed limit. The affixing of the stamp stating such paper to be eligible for rediscount will be considered a solemn and binding declaration by the member bank that the statement has been examined from this point of view and that the paper bought complies with all the requirements of the law and the regulations hereby imposed.

The board appends two additional regulations: No. 3, covering discount transactions on or before January 15; No. 4, discount operations on and after January 15.

SIX MONTHS PAPER.

The law provides that the Federal Reserve Board shall fix the percentage of its capital (by which is understood that portion of the capital paid in) up to which a Federal Reserve Bank may discount "notes, drafts, and bills drawn or issued for agricultural purposes, or based on live stock, and having a maturity not exceeding six months." The law permits the Federal Reserve Board to deal with each Federal Reserve Bank individually in fixing this limit.

The Federal Reserve Board has determined to fix this limit generally, and until further notice, at 25 per cent. of the capital that shall have been paid in from time to time. For those districts in which, during certain seasons, six-months paper is particularly required to carry through agricultural operations the limit will be increased from time to time upon requests made by Federal Reserve Banks to the Federal Reserve Board.

Regulation No. 5, relating to six-months paper, is appended hereto.

Regulation No. 6, relating to bank acceptances, is likewise appended.

CHARLES S. HAMLIN,
Governor.

[1]For brevity's sake, the words "bills" and "notes" whenever used in these paragraphs include bills, notes, and drafts, as specified in the act.

Rediscount Operations.

Regulation No. 2.

WASHINGTON, November 10, 1914.

That part of section 13 of the Federal Reserve Act which relates to rediscount operations of Federal Reserve Banks reads as follows:

> Upon the indorsement of any of its member banks, with a waiver of demand, notice and protest by such bank, any Federal Reserve Bank may discount notes, drafts, and bills of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this act. Nothing in this act contained shall be construed to prohibit such notes, drafts, and bills of exchange, secured by staple agricultural products, or other goods, wares, or merchandise from being eligible for such discount; but such definition shall not include notes, drafts, or bills covering merely investments or issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States. Notes, drafts, and bills admitted to discount under the terms of this paragraph must have a maturity at the time of discount of not more than ninety days: *Provided,* That notes, drafts, and bills drawn

or issued for agricultural purposes or based on live stock and having a maturity not exceeding six months may be discounted in an amount to be limited to a percentage of the capital of the Federal Reserve Bank, to be ascertained and fixed by the Federal Reserve Board.

ACCEPTANCES.

Any Federal Reserve Bank may discount acceptances which are based on the importation or exportation of goods and which have a maturity at time of discount of not more than three months, and indorsed by at least one member bank. The amount of acceptances so discounted shall at no time exceed one-half the paid-up capital stock and surplus of the bank for which the rediscounts are made.

The aggregate of such notes and bills bearing the signature or indorsement of any one person, company, firm, or corporation rediscounted for any one bank shall at no time exceed ten per centum of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.

Any member bank may accept drafts or bills of exchange drawn upon it and growing out of transactions involving the importation or exportation of goods having not more than six months sight to run; but no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half its paid-up capital stock and surplus.

Section 19 of the Federal Reserve Act, relating to reserves, reads in part as follows:

Any Federal Reserve Bank may receive from the member banks as reserves, not exceeding one-half of each installment, eligible paper as described in section fourteen properly indorsed and acceptable to the said reserve bank.[1]

The announcement to be made by the Secretary of the Treasury on November 16 will bring into operation these two sections, and it is accordingly necessary that the several Federal Reserve Banks shall be advised of the characteristics that must be possessed by paper offered for rediscount to be acceptable under the terms of the act.

While section 13 provides that the Federal Reserve Board shall have the right to determine or define the character of the paper thus eligible for discount within the meaning of the act, the section referred to defines in general terms the elements which such paper must possess in order to be eligible.

All paper offered for discount under this section to any Federal Reserve Bank must conform to the following requirements:

First. It must be indorsed by a National or State bank or trust company which is a member of the Federal Reserve Bank to which it is offered for rediscount.

Second. Such bank must, with its indorsement, waive demand notice and protest.

Third. Paper so offered shall be in the form of notes, drafts, or bills of exchange arising out of commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used or are to be used for such purposes.

Fourth. If in the form of acceptances, they must be based on transactions involving the importation or exportation of goods and must have a maturity at the time of discount of not more than three months to run. They must furthermore be indorsed by at least one member bank, and the total amount offered shall in no event exceed one-half the paid-up capital stock and surplus of the bank offering same.

Fifth. The aggregate of notes and bills bearing the signatures or indorsement of any one person, company, firm, or corporation rediscounted for any one bank shall at no time exceed 10 per cent. of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.

Subject to these limitations, it devolves upon the Federal Reserve Board to determine or define for the several Federal Reserve Banks (1) notes, drafts and bills of exchange eligible for rediscount; (2) bank acceptances eligible for rediscount.[2]

The limitations relating to rediscount operations, contained in section 13 of the act, may be divided into two classes: First, those positive limitations under which such notes, drafts, and bills of exchange may be accepted for rediscount; and, second, those limitations specifically stating what paper shall be excluded.

If we begin with the latter, we find the very clear provision excluding all notes, drafts, and bills of exchange which are "issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities (except bonds and notes of the Government of the United States)." This clause does not require comment.

The act further excludes notes, drafts, and bills of exchange covering "merely investments."

Any funds employed in agriculture, commerce, or industry are quasi-investments, and the emphasis is, therefore, to be laid on the word "merely" in this connection.

From this point of view are to be excluded all bills whose proceeds have been or are to be used in permanent or fixed investments of any kind. "Agricultural, industrial, or commercial purposes" cannot, therefore, be held to include investments in land, plant, machinery, permanent improvements, or transactions of a similar nature.

The purchase of commodities for purposes which are merely speculative and not connected with an ultimate process of manufacturing or distribution would constitute a "mere" investment, and bills covering such investments are accordingly not eligible for rediscount.

In order to be eligible for rediscount bills must "arise out of actual commercial transactions," and "the proceeds must have been used or they are to be used for agricultural, industrial, or commercial purposes."

In like manner "notes, drafts, and bills of exchange secured by staple agricultural products or other goods, wares, or merchandise" are eligible for rediscount provided they arise out of "actual commercial transactions" covering some particular stage in the process of production and distribution.

They are not eligible when drawn to cover merely speculative investments.

CHARLES S. HAMLIN,
Governor.

[1] Attention is called to the fact that the error in the original act which refers to eligible paper, referred to in section 14, has been corrected by amendment approved August 15, 1914, and this section now reads:

"Any Federal Reserve Bank may receive from the member banks as reserves, not exceeding one-half of each installment, eligible paper as described in *section thirteen* properly indorsed and acceptable to the Federal Reserve Bank."

[2] Bank acceptances eligible for rediscount are defined in regulation No. 6.

Statement Regarding Character of Paper for Rediscount.

Regulation No. 3.

WASHINGTON, November 10, 1914.

Whenever a member bank shall offer for rediscount any note, draft, or bill of exchange bearing the indorsement of such member bank, with waiver of demand notice and protest, the directors or executive committee of the Federal Reserve Bank may, until January 15, 1915, accept as evidence that the proceeds of such note, draft, or bill of exchange were or are to be used for agricultural, industrial, or commercial purposes (and that such notes, drafts, or bills of exchange in other respects comply with the regulations of the board) a written statement from the officer of the applying bank that of his own knowledge and belief the original loan was made for one of the purposes mentioned, and that the provisions of the act and regulations issued by the board have been complied with.

CHARLES S. HAMLIN,
Governor.

Credit and Other Information.

Regulation No. 4.

WASHINGTON, November 10, 1914.

From and after January 15, 1915, all notes, drafts, or bills of exchange offered for rediscount shall show on their face, or by indorsement, a statement substantially to the following effect:

Eligible for rediscount with Federal Reserve Banks under regulations of the Federal Reserve Board Circular No. 13—
Credit File No........................
District No. ....
Name of member bank................

The credit file number shall refer to evidence in possession of the member bank that the proceeds of such notes, drafts, or bills of exchange, under the terms of the loans made or to be made, were, or are to be, used for agricultural, industrial, or commercial purposes, as required by Section 13 of the Federal Reserve Act and as imposed by regulation No. 2 of the Federal Reserve Board, and such credit files shall be open to inspection by any examiner appointed by the Comptroller of the Currency or selected by the Federal Reserve Bank discounting same, and copies of such files, or any part thereof, shall be furnished to the officers of the Federal Reserve Bank upon request.

The credit files referred to should contain not only evidence of the purpose or purposes for which such loans are made but also full and complete information as to the financial responsibility of the borrower, including a short general description of the character of the business, balance sheet, and profit and loss account of the borrower. Assets should be divided into permanent or fixed investments, slow assets, and quick assets. On the liability side should be shown capital, long-time loans, and short-term loans. Short-term loans should be in proper proportion to quick assets, and the statement should contain satisfactory evidence that short-term paper is not being sold against permanent or slow investments. The statement should, furthermore, show the maximum aggregate amount up to which the concern supplying this paper expects to borrow on short credit or sale of its paper, and the individual, firm, or corporation giving the statement should obligate himself or itself to obtain the member bank's consent before exceeding the agreed limit. The affixing of the stamp stating such paper to be eligible for rediscount will be considered a solemn and binding declaration by the member bank that the statement has been examined from this point of view and that the paper bought complies with all the requirements of the law and of the regulations hereby imposed.

CHARLES S. HAMLIN,
Governor.

Rediscounted Agricultural Paper not to Exceed 25%.

Regulation No. 5.

WASHINGTON, November 10, 1914.

Whenever notes, drafts, or bills of exchange offered for rediscount have a maturity of more than three but less than six months, and the Federal Reserve Bank has been satisfied in the manner provided by regulation No. 2 that the proceeds of loans applied for are used or are to be used for agricultural purposes or are based upon live stock, such notes, drafts, and bills of exchange may, until further notice, be accepted for rediscount in an aggregate amount not exceeding 25 per cent. of the paid-in capital of the Federal Reserve Bank accepting same.

CHARLES S. HAMLIN,
Governor.

Acceptances Eligible for Rediscount.

Regulation No. 6.

WASHINGTON, November 10, 1914.

Whenever bank acceptances are offered for rediscount it must appear on the face of such acceptances that the proceeds thereof were used or are to be used in connection with a transaction involving the importation or exportation of goods; that is to say, it must appear that there has been an actual bona fide sale which involves the transportation of goods from some foreign country to the United States or from the United States to some foreign country.

CHARLES S. HAMLIN,
Governor.

Time Deposits and Savings Accounts.

Regulation No. 7.

WASHINGTON, November 11, 1914.

Section 19 of the Federal Reserve Act provides in part as follows:

> Demand deposits within the meaning of this Act shall comprise all deposits payable within thirty days, and time deposits shall comprise all deposits payable after thirty days, and all savings accounts and certificates of deposit which are subject to not less than thirty days' notice before payment.

TIME DEPOSITS.

The term "time deposits" is interpreted to include any deposits subject to check upon which the bank has the right by written contract entered into with the depositor at the time the deposit was made to require from such depositor not less than thirty days' notice before such deposit or any part thereof may be withdrawn. Any agreement, written or verbal, entered into by a member bank with a depositor not to enforce the terms of such contract of deposit shall be construed as vitiating the contract, and any member bank reporting as time deposits any deposits on which it has not the right to require not less than thirty days' notice before withdrawal, may be subject to the penalties prescribed by Section 5209 of the Revised Statutes of the United States.

SAVINGS ACCOUNTS.

The term "savings accounts" shall be held to include those interest-bearing accounts which are carried with the bank under written agreement on the part of the bank to pay a specific rate of interest, which rate is to be paid to all other depositors having similar accounts and where the depositor is required to present his pass-book with each check drawn. Savings accounts shall not be held to include any ordinary checking accounts where presentation of the pass-book with the check is not required.

In the case of State banks and trust companies located in States whose laws require that funds accruing from savings accounts shall be invested in any particular class of securities, only those accounts whose balances are so invested and which are handled so as to comply with the technical requirements of the State laws shall be held to be savings accounts within the meaning of this Act.

CHARLES S. HAMLIN,
Governor.

Discount Rates Established for the Twelve Federal Reserve Banks.

November 14, 1914.

The following statement was issued by the Governor of the Federal Reserve Board on November 14th:

"Rates of rediscount have been established as follows: New York and Philadelphia, five and one-half per cent. for bills and notes having a maturity of not over thirty days, and six per cent. for paper with a longer maturity; Boston, Cleveland, Richmond, Chicago and St. Louis, six per cent. for all maturities; Atlanta, Minneapolis, Kansas City, Dallas and San Francisco, six per cent. for bills and notes having a maturity of not more than thirty days, and six and one-half per cent. for those having a longer maturity.

The Board took this action in accordance with the provisions of the Federal Reserve Act which authorized it to review and determine rates of discount fixed by each Federal Reserve Bank. Each of the Banks was requested by telegraph to suggest a rate of discount for opening and all of these replies were tabulated. The answers showed a very decided degree of uniformity, and many of the rates have been confirmed as suggested, the lowest suggested rate being five per cent., while the highest was seven per cent.

After full consideration of the facts in the situation, the Board felt it incumbent to adopt a moderate and conservative policy at the outset, in view of the fact that the exact conditions to which the banks will be subjected in operation cannot be precisely foretold. It was felt that the adoption of rates of rediscount which would adequately safeguard the resources of the various institutions would

be the wisest policy at the beginning, particularly in view of the conditions already set forth in the Board's Circular No. 13. [Reprinted in this circular.] 'The Federal Reserve Banks have the right, with the approval of the Board, at any time to change the rates, and the present rates are, therefore, to be regarded as provisional and subject to revision. The Board expects to be governed entirely by experience as the new banks become firmly established and accumulate data which can be used for its guidance in reaching conclusions.'"

Notice of the Establishment of Federal Reserve Banks.

TREASURY DEPARTMENT, OFFICE OF THE SECRETARY.

WASHINGTON, November 16, 1914.

To all Member Banks of the Federal Reserve Bank of Dallas, District No. 11:

Whereas the necessary provisions of the Act of Congress approved December 23, 1913, and known as the Federal Reserve Act, have been complied with, and a certificate authorizing the Federal Reserve Bank of ——— to commence business has been executed and delivered by the Comptroller of the Currency to said bank;

Now, therefore, in accordance with Section 19 of said Act, you are hereby notified that said bank has been established and opened for business and that the reserve requirements prescribed by said section, together with other provisions of the Federal Reserve Act pertaining to matters of operation of said Federal Reserve Bank and its members as defined by the Act referred to, shall, from and after this date, become effective.

For your information and guidance there is inclosed an approved form for computation of reserve under the provisions of said Act, and a copy of Section 19 of said Act relating to and defining such reserve requirements.

WM. G. McADOO,
Secretary of the Treasury.

First Consolidated Statement of Federal Reserve Banks.

November 21, 1914.

The Federal Reserve Board to-day made public the first consolidated statement of the Federal Reserve System. The statement as given out relates to condition at the close of business on Friday, November 20th.

Rediscounting privileges have been availed of to a considerable extent in New York, Chicago, St. Louis and Kansas City. Elsewhere the showing is much smaller. Federal Reserve Notes to meet local demand have been issued principally in Chicago, New York and Minneapolis, but every bank has been supplied with an adequate quantity of notes to meet its needs. The relatively small amount of rediscounts as compared with the resources of the system is due to the policy of the Federal Reserve Board in encouraging the payment of reserve deposits in actual money instead of in rediscounted paper. Rates of rediscount established a week ago were fixed with this policy in mind as outlined in Circular No. 10, sometime ago issued by the Board. Reports from all districts are of the most encouraging nature and the outlook for business is stated as satisfactory. The establishment of the System has already had an important effect in increasing the lending power of the member banks in addition to the loan power of the Federal Reserve Banks.

The following consolidated statement shows in one total as nearly as available figures will permit the condition of the twelve Federal Reserve Banks at the close of business on November 20, 1914.

STATEMENT OF CASH ON HAND, REDISCOUNTS, RESERVE DEPOSITS AND CAPITAL PAID IN OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS, NOVEMBER 20, 1914.

CASH ON HAND:	
Gold coin and certificates	$203,415,000
Legal Tender, silver certificates and subsidiary coin	37,308,000
Total	$240,723,000
REDISCOUNTS	$ 5,607,000
ALL OTHER ASSETS	95,000
Total	$246,425,000
CAPITAL PAID IN	$ 18,072,000
RESERVE DEPOSITS	227,138,000
FEDERAL RESERVE NOTES IN CIRCULATION	1,215,000
Total	$246,425,000
Gold Reserve against all liabilities	89%
Cash Reserve against all liabilities	105%
Cash Reserve against all liabilities after setting aside 40% gold reserve against Federal Reserve Notes in circulation	105%

Bond Required of Federal Reserve Agents.

Regulation No. 8.

November 23, 1914.

Each Federal Reserve Agent shall be required to execute a bond with acceptable security running to the United States in the penal sum of Two Hundred and Fifty Thousand Dollars ($250,000), and each Deputy Federal Reserve Agent shall be required to execute a like bond in the penal sum of One Hundred and Fifty Thousand Dollars ($150,000).

Treasury Department Form No. 280 has been approved and adopted by the Federal Reserve Board with the necessary conditions inserted so that the bond to be executed will be in the form following:

KNOW ALL MEN BY THESE PRESENTS, that we.......... ...., of ...., as principal, and .... as surety, are held and firmly bound unto the United States of America in the full and just sum of.............................. thousand dollars ($............), lawful money of the United States; for which payment, well and truly to be made, we bind ourselves, jointly and severally, our joint and several heirs, executors, and administrators, successors and assigns, firmly by these presents.

Sealed with our seals, and dated this.......................... day of .... in the year one thousand, nine hundred and ....

The condition of the foregoing obligation is such, that whereas under the authority of the Act of Congress approved December 23, 1913, and known as the Federal Reserve Act, the said............ .... has been duly appointed by the Federal Reserve Board a Class C Director, and has been designated as Federal Reserve Agent of the Federal Reserve Bank of .... and whereas the said........................ has executed his oath of office and entered upon his duties as ....

NOW, THEREFORE, if the said..........................shall well and truly execute and discharge all the duties of said office according to the laws of the United States, and the regulations of the Federal Reserve Board made in conformity therewith, safely keeping and correctly accounting for and delivering to the party or parties entitled thereto all moneys, notes, securities and other funds coming into his hands from time to time, without loaning, using, depositing in bank or exchanging for other funds except as allowed by law, then this obligation to be void and of none effect, otherwise to remain in full force and virtue.

Sealed, signed, and delivered in the presence of

....

....

CHARLES S. HAMLIN,
Governor.